



- Board of Directors
Finance and Insurance Committee

5/14/2019 Board Meeting

8-3

Subject

Authorize a professional services agreement with PFM Asset Management, LLC to provide investment management services; the General Manager has determined that the proposed action is exempt or otherwise not subject to CEQA

Executive Summary

In March 2019, Metropolitan issued a Request for Proposals (RFP) to firms to provide investment management services for Metropolitan's short-term liquidity portfolio. Three firms responded to the RFP. Based on evaluations of responses, PFM Asset Management, LLC (PFM) was selected to provide investment management services for the liquidity portfolio for a five-year period.

Details

Background

In 2002, Metropolitan's Board directed staff to, among other actions, bifurcate the investment portfolio into a liquidity, or short-term, portfolio and a core, or long-term, portfolio. Since 2002, the core portfolio has been managed by Reams Asset Management and SEB Asset Management and its successors, currently Hillswick Asset Management. The liquidity portfolio has been managed by PFM since December 2018.

After considering the investment necessary in additional staffing, technical training and resources, and information systems to manage the liquidity portfolio internally, an RFP was issued to firms to provide investment management services for a five-year term. Professional firms are capable of providing superior investment research and trade execution, trading system integration with investment policy compliance, robust staffing to support trading, credit analysis, and transaction settlement, and investment in information technology systems. This can be done in a cost-effective manner through economies of scale.

The additional cost of contracting for investment management services is offset by the greater return potential available from full-time expert management of the liquidity portfolio. To date, PFM has at times traded the portfolio more actively to take advantage of price differentials between financial investments; implemented the use of a money market fund as a cash "sweep" account for immediate cash management; and extended the maturity of investments, thereby increasing income.

Use of an investment manager also lessens the number of business activities the Treasury staff must undertake in the event of a business interruption. Treasury staff can focus on cash management activities with Metropolitan's commercial and custodial banks.

Request for Proposals

In March 2019, Metropolitan issued an RFP to firms to provide investment management services for Metropolitan's short-term liquidity portfolio. Three firms responded to the RFP. Treasury staff evaluated responses. Meketa Investment Group, who currently provides quarterly performance reviews of Metropolitan's liquidity and core portfolios, provided technical advice. Based on the evaluations, PFM was selected to provide investment management services for the liquidity portfolio for a five-year period.

PFM would manage investments to the current Investment Policy Benchmark, which is the Intercontinental Exchange Bank of America Merrill Lynch Three-Month Treasury Bill index. It is expected that PFM would exceed the benchmark after accounting for fees. The fees are dependent on the average balance in the liquidity portfolio and could range from \$340,000 to \$500,000 annually. All securities would continue to be held by Metropolitan's custodial bank, the Bank of New York. Metropolitan uses treasury management software to monitor and report information by the portfolio as well as on a consolidated basis for management and the Board.

Treasury staff would work with the investment manager to ensure that investments comply with Metropolitan's investment policy, as that policy is amended from time to time. The Treasurer would continue to provide monthly reports and quarterly performance reviews to the Finance and Insurance Committee.

Policy

Metropolitan Water District Administrative Code Section 5101: Investment of Surplus Funds

Metropolitan Water District Administrative Code Section 5114: Reporting Requirements of the Treasurer

Metropolitan Water District Administrative Code Section 8121: General Authority of the General Manager to Enter Contracts

Metropolitan Water District Administrative Code Section 8140: Competitive Procurement

Metropolitan Water District Administrative Code Section 11104: Delegation of Responsibilities

California Environmental Quality Act (CEQA)

CEQA determination for Option #1:

The proposed action is not defined as a project under CEQA because it involves continuing administrative activities, such as the creation of government funding mechanisms or other governmental fiscal activities which do not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment (Section 15378(b)(4) of the State CEQA Guidelines).

CEQA determination for Option #2:

None required

Board Options

Option #1

Authorize a professional service agreement with PFM Asset Management, LLC to provide investment management services.

Fiscal Impact: \$340,000 to \$500,000 annually, offset by greater returns realized by external management

Business Analysis: Cost-effective management of the liquidity portfolio realized through economies of scale by an external manager

Option #2

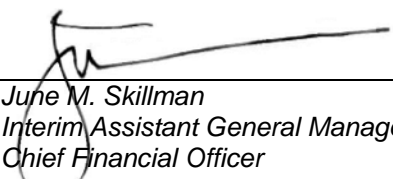
Do not authorize a professional service agreement.

Fiscal Impact: Additional staffing, technical training and resources, and information systems to manage the liquidity portfolio internally

Business Analysis: This option would forego an opportunity to improve the management of the liquidity portfolio

Staff Recommendation

Option #1



June M. Skillman
Interim Assistant General Manager/
Chief Financial Officer

4/25/2019

Date



Jeffrey Kightlinger
General Manager

4/25/2019

Date

Ref# cfo12664813